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Subject: Research credit – allowing alternative computation

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Overview

This bill allows taxpayers to elect an alternative method of calculating the Minnesota research and development credit using a base of one-half of the average of qualified research expenses over the previous three tax years. By contrast, the base amount under the standard or regular credit for most taxpayers is based on qualified expenses in tax years 1984 to 1988 (set as a percentage of gross receipts, but not to exceed 16 percent, to adjust for changes in the size of the business). This option is similar to the alternative simplified credit (or ASC) under the federal research credit.

Taxpayers electing the ASC under the bill would be allowed a credit rate of 6 percent. By contrast, the credit rate under the standard credit is 10 percent of the first \$2 million of qualifying expenses over the base amount and 2.5 percent of any amount over that. Under the author's amendment, the election could be made each year.

Section

1 **Credit rate.** Sets the research credit rate at 6 percent for taxpayers electing to use the ASC method for calculating the credit under section 3.

Effective date: tax year 2017

Section

2 **Definition of base amount.** Defines the base amount for taxpayers making the ASC election under section 3 as 50 percent of average qualified research expenses in the three tax years prior to the year in which the credit is claimed.

Effective date: tax year 2017

3 **ASC election.** Authorizes taxpayers to elect to use the ASC method of calculating the research credit (described in section 2). This election must be made on an original return or any extension. Under the author's amendment a taxpayer can revoke this election without approval of the commissioner of revenue at any time. A partnership must make the election on the partnership return and it applies to all of its partners.

Effective date: tax year 2017